matzikama

Municipality

Finaal Voorgestelde Begroting /

Final Proposed Budget

2016/17– 2018/19

Medium Termyn Inkomste- en Uitgaweraamwerk/

Medium Term Revenue and Expenditure Framework

Contents

Glossary

Adjustments budget – Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

Budget – The financial plan of the Municipality.

Budget-related Policy – Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

Capital expenditure – Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement –A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month; even if it is not paid within the same period.

DORA – Distribution of Revenue Act. Annual legislation containing the total allocations by national government to provincial and local governments.

Equitable share – A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.

Fruitless and wasteful expenditure – Expenditure done in vain and that could have been avoided if reasonable care was exercised.

GFS – Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities.

Grants – Money received from Provincial or National Government and other municipalities.

GRAP – Generally Recognised Accounting Policy. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality.

KPI's – Key Performance Indicators. Measurement of service outputs and/or outputs.

MFMA – The Municipal Financial Management Act – No. 53 of 2003. The main legislation applicable to municipal financial management.

MTREF – Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

Net Assets – Net assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the net assets of the municipality equal the "net welfare" of the municipality, after all assets had been sold/recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Net Assets.

Operational expenditure – Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

Property rates – Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

Unauthorised expenditure – In general, expenditure without, or in excess of an approved budget.

Virement – A budget transfer.

Vote – one of the main segments of a budget.

PART 1 – ANNUAL BUDGET

Section 1 – Mayoral Report

In terms of section 16 (2) of the Municipal Financial Management Act (Act 56 of 2003), it is my privilege to table the 2016/2017 to 2018/2019 Medium Term Revenue and Expenditure Framework (MTREF) to Council.

As this budget constitutes the proposed financial plan for the next 3 years, it naturally impacts on the community as a whole and it is thus extremely important to consult the community in a bid to create awareness and to gain support for joint ownership and responsibility in managing the municipality's financial affairs. Consequently, a compulsory period of community liaison followed during the month of April 2016 of which the comments was considered by the Executive Mayor in a bid to give effect to Section 23 of the Municipal Financial Management Act and to ultimately facilitate final approval of the 2016/2017 budget on 31 May 2016.

Executive Mayor's Response to the input received from the public and the Provincial Government

6 Sets of comments (PT's detailed assessment report is excluded as the process utilised for this purpose is the LGMTEC 3 engagement with the senior management and contained as ANNEXURE D to the budget documentation to which they have responded already) were received by the due date and for purposes of good order are listed hereunder with my response inclusive of the effect on the Draft Budget:

Objections to valuations and draft tax rates

- **(a)** LGO- Agriculture Community Development
- **(b)** Willem Wuim-
- **(c)** Vredendal Huiseienaarsvereniging
- **(d)** G. J Van Wyk
- **(e)** Allen Lyons

L Fouche Strandfontein – objections to electricity increases / electricity block rate tariff structure / valuations / maintenance and upkeep of chalets and caravan facilities / tax revenue should plowed back into Strandfontein / support composition of expert committee to help council with advice and analysis

RESPONSE:

Electricity increases in tariffs are set according to guidelines set by Nersa. Council appointed a consultant to ensure the most effective tariff structure. Income from electricity is necessary for the payment of Escom supply to council. The need for electricity are growing year on year as consumers get used to more equipment using in the household environment.

Electricity block tariffs are set by Nersa, council tariffs must be set accordingly to get approval from Nersa before implementation of tariffs for 2016/2017.

Valuations of property are done within the regulations set in the Municipal Property Rates Act nr 6 of 2004. Market values of properties are determined in consideration of sales of properties since the previous valuation done in 2010. Valuations of properties may differ between towns within the Municipal area, due to the growth of the economy and population in the geographic area over the past years since 2010.

All objections received from owners being considered by Suid – Kaap Waardeerders. Owners do have access to the valuation appeal board for further consideration of a valuation of a property.

Council do consider comments received on the rates as set in the draft budget. Considering the drought conditions and social economic conditions, council managed to adjust the rates accordingly.

Maintenance on the holiday resort is one of the priorities of council. Due to the life time of the buildings and the number of visitors in the high season maintenance cost is high.

Support for analysing of financial and managerial positions is granted by National and Provincial Treasury on a continuous basis.

All comments as received from public within in the time frame as set in the advertisement of the Draft Budget have been considered and amendments were done where possible.

Comments were received after the prescribed time frame from the Vredendal Business Chamber. I am not responding to same but is annexed as Annexure D hereto for purposes of record.

End of Comments

…………………………………………

Council's strategic objectives of service delivery include the continuation of an acceptable level of services, as well as improvement in those areas still in need of development. It remains a priority of the council to contain service delivery within the affordability levels of the community whilst focusing on the seven strategic focus areas that council wish to strive to achieve over the next three years:

- Economic Development;
- Financial Stability;
- Good Governance & Municipal Transformation;
- Good, quality municipal basic services;
- Socially advanced communities
- Capacitated and informed communities;
- Sustainable natural and built environment.

Strategic objectives were developed for each focus area that are specifically linked to the multi-year budgets and is given effect to in the Service Delivery and Budget Implementation Plan. The municipality has also ensured that there is a distinction between municipal functions and those of other spheres of government.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and more particularly the needs of the poor and vulnerable.

In addition, like as in the rest of the country we have not escaped the downturn in the economy, which has had a considerable influence to not only disposable income levels in our area, but has further lowered the level of unemployment and growth prospects. The effects of continuously rising costs in inputs such as fuel and electricity amongst other with the resultant multiplier effect on our expenditure(outflow of cash) requirements, have culminated in increased costs to provide basic and community services, making the achievement of the service delivery objectives so much more difficult and a even greater challenge**.**

We will continue to partner with the provincial government to investigate how we achieve more with our existing resources and to increase productivity levels and ensuring that all staff is 100% productive.

Taking all of the above into consideration, I submit to you the following estimated expenditure, summarised as follows:

TYPE	2016/2017 (000)	2017/2018 (000)	2018/2019 (000)
Operating expenditure	272 372	288 447	307 048
Capital expenditure	27 077	27 075	28 010
TOTAL	**299 449**	**315 522**	**335 058**

The increases in tariffs and service charges, in the main are influenced by the following, but not limited to the items below, over which council have little or no control over:

- ***Salary increases of around 7% excluding a further annual notch increase and other employee benefit increases such as housing subsidies, pension, medical aid contributions, etc. as determined at national bargaining level and outside the control of the municipality***

- ***The already approved increase of around 7.8% in Eskom's bulk purchase price for electricity.***
- ***An increase of 6.25% in the bulk purchase price for water.***
- ***Interest on capital costs to service the existing external loans.***
- ***Compulsory statutory provisions for devaluation of assets, bad debt, and sufficient GRAP provision for post-employment medical contributions and long service awards.***
- ***Service delivery challenges***
- ***Spending on Repairs and maintenance***
- ***The socio economic conditions and consumer profiles of communities***

Section 2 – Budget Related Resolutions

MTREF 2016 to 2019

IT IS RECOMMENDED TO COUNCIL:

1. That the annual operating budget and capital budget(high level budget summary) of Matzikama Municipality as contained in **Section 3(page 11**), be approved and adopted;
2. That the 3-year capital budget of Matzikama Municipality for the 2016/2017 financial year; and the indicative two projected outer years, 2017/2018 and 2018/2019, as contained in **ANNEXURE A**, be approved;
3. That the annual budget tables as prescribed by the Budget and Reporting Regulations for the Matzikama Municipality for the 2016/2017 financial year; and the indicative two projected outer years, 2017/2018 and 2018/2019, as set out in **Part 1Section 4(page 20)**, be approved;
4. That the property rates and charges on properties in WC011, tariffs, tariff structures and service charges for water, electricity, refuse, sanitation and other municipal services and charges, as set out in **ANNEXURE B** , be approved; and
5. That the budget and other related policies as set out in **ANNEXURE C**, be approved.

Section 3 – Executive Summary

Introduction

The 2016 Budget Review published by National Treasury notes that spending plans outlined in the 2016 National Budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, while taking account of the constrained fiscal environment. It provides the foundation for structural reforms and is focused on the transformation essentials which will ultimately accelerate growth, create work opportunities and build an equal society as envisaged in the National Development Plan. The emphasis of the National Budget is placed on ensuring that expenditure is allocated in an efficient manner, that management is enhanced and that cutting of waste occur. It is therefore imperative that we follow the tone at the top and ensure that our own local budget exhibits the same potential for being a developmental local government, implement cost containing measures to eliminate non-priority spending and taking the plight of the poor serious.

Specific strategies and interventions required by local government in achieving economic stability and higher levels of growth as outlined in the Medium Term Budget Policy Statement should include; among others:

- **Expanding public sector investment in infrastructure** through ensuring the budgets and MTREF's acknowledge that capital programmes needs a balanced funding structure addressing not only backlogs in services but also investment in new infrastructure as well as renewing current infrastructure.

- **Sustainable job creation** remains a national priority and municipalities must ensure that in drafting their 2016/17 budgets and MTREFs, they continue to explore opportunities to promote labour intensive approaches to delivering services, and more particularly to participate fully in the Expanded Public Works Programme. However, municipalities should not carelessly employ more people without any reference and consideration to the level of staffing required delivering effective services. Remuneration increases associated with bargaining council decisions, and affordability must be considered over the medium term. Municipalities should focus on maximizing job creation by:
  - Ensuring that service delivery and capital projects use labour intensive methods wherever appropriate;
  - Ensuring that service providers use labour intensive approaches; supporting labour intensive LED projects;

- Participating fully in the Expanded Public Works Programme; and
- Implementing internship programmes to provide young people with on-the-job training.

- **Municipalities must act as catalysts for economic growth** through creating an enabling environment for investment and other activities that foster job creation. It is important for municipalities to pay particular attention to:

  - Joint planning by a municipality, its community and business sectors. This means that all economic forces in the local situation have to be brought on board to identify resources, understand needs and work out plans to find the best ways of making the local economy fully functional, investor friendly and competitively productive;
  - Ensuring the timely delivery of their capital programmes and to review all by-laws and development approval processes with a view to removing any regulatory bottlenecks to investment and job creation; and
  - Act as a catalyst for local economic development by appropriately structuring capital programmes to address backlog eradication, asset renewal and development of new infrastructure; this will require carefully formulating the funding mix to include grants, borrowing and own funding (internally generated funding).

- **Implementing the National Development Plan** through expanding electricity, transport, communications capacity and promoting industrial competitiveness. Municipalities need to support special economic zones, broadening rural development and strengthening public service delivery while combating waste and corruption. The medium-term expenditure framework (MTEF) uses the National Development Plan (NDP) as a point of departure. The NDP sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality by 2030. The NDP supported by the New Growth Path and other programmes provides a platform to look beyond the current constraints to the transformation imperatives over the next 15 to 20 years. The NDP emphasises the need to lower the cost of living for households, reduce the cost of doing business for small and emerging enterprises, reduce poverty and inequality and raise employment and investment. These objectives need to take into account fiscal sustainability, which ensures that progress will not be interrupted or reversed. This will also entail shifting the composition of spending from consumption towards capital investment.

- **Building an efficient developmental state** through increasing the levels of delivery by ensuring improvements to policy formulation, procurement, management systems, developing mechanisms for sharing skilled personnel in critical delivery areas and minimising waste.

The outlook for the South African economy has also deteriorated as a result of lower commodity prices, higher borrowing costs and diminished confidence. Currency weakness is putting upward pressure on inflation and the agriculture sector is suffering the effects of a severe drought. GDP growth is expected to improve gradually over the medium term, reaching 2.4 per cent in 2018

Moderate household consumption growth, weaker disposable income growth and high indebtedness are expected to reduce growth in services in 2016, particularly in financial and business services, and transport and communications. Tourism, boosted by rand weakness and amended visa regulations, is expected to support growth.

Using the Integrated Development Plan as the guiding strategic document informing budget compilation, the requirement of “modern infrastructure” was addressed during the compilation of the annual budget in a bid to ensure the sustainable delivery of services as envisaged in our Constitution. The challenge however is still to deliver services more efficiently and effectively within a tight financial resource envelope.

The financial resources to fund the Operational Budget will and must consist of realistically anticipated revenue generated from property taxes, service charges and other income. We were however mindful of estimated headline inflation for 2016/2017 of around 6,6%, forming the basis of the extensive income modelling and property taxes exercise, having cognisance of the principles of economical services being cost reflective, trading services generating surpluses, the effect of escalating salary costs and bulk purchases. The latter amongst other, formed the basis of what was required to deliver sustainable services at appropriate levels to our communities, the financial requirements to service infrastructure assets balanced against realistic and affordable tariffs (anticipated revenue).

The annual operational and capital budget of Matzikama Municipality for the financial year 2016/2017 and the 2 indicative outer years 2017/2018 and 2018/2019 are hereby tabled as envisaged by the applicable legislation and regulations.

HIGH LEVEL BUDGET SUMMARY PER DIRECTORATE

	Operating Income R	Operating Expenditure R	Capital Expenditure R
Executive and Council	-	14 145	100
Financial Services	117 388	39 055	75
Corporate Services	315	14 693	120
Community Services	31 701	43 595	2 040
Public Works and Basic Services	144 646	150 129	24 637
Development and Planning Services	5 413	10 756	105
Total	**299 463**	**272 372**	**27 077**

The projected estimates for the MTREF are as follows: (R '000)

OPERATING /EXPENDITURE BUDGET AND NATIONAL TRANSFERS

Type	2016/2017 (R '000)	2017/2018 (R '000)	2018/2019 (R '000)
Revenue	275 761	293 034	312 124
Expenditure	272 372	288 447	307 048
Capital transfers	23 703	24 229	25 766
Surplus	**27 092**	**28 816**	**30 843**

It is relevant at this juncture to draw attention to the fact that the growth in revenue from 2015/16 to 2016/17 was kept at realistic and affordable levels given the economic conditions.

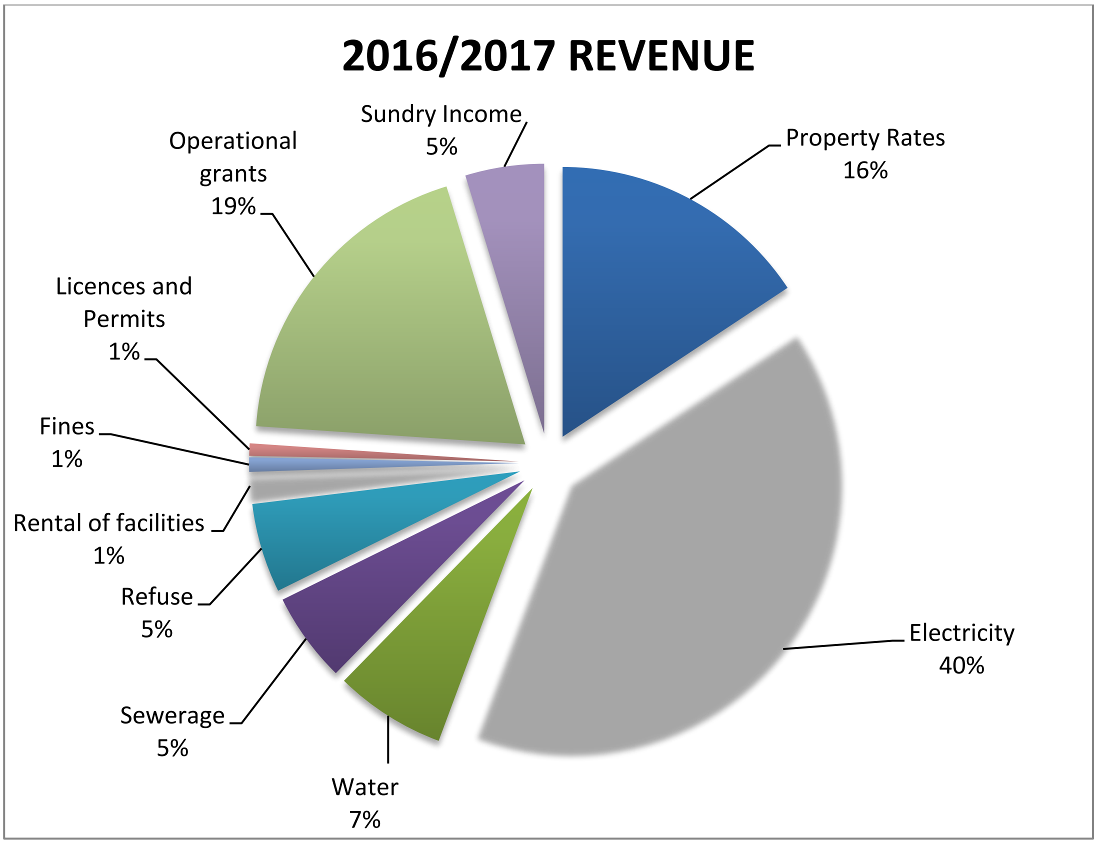
OPERATING BUDGET – REVENUE

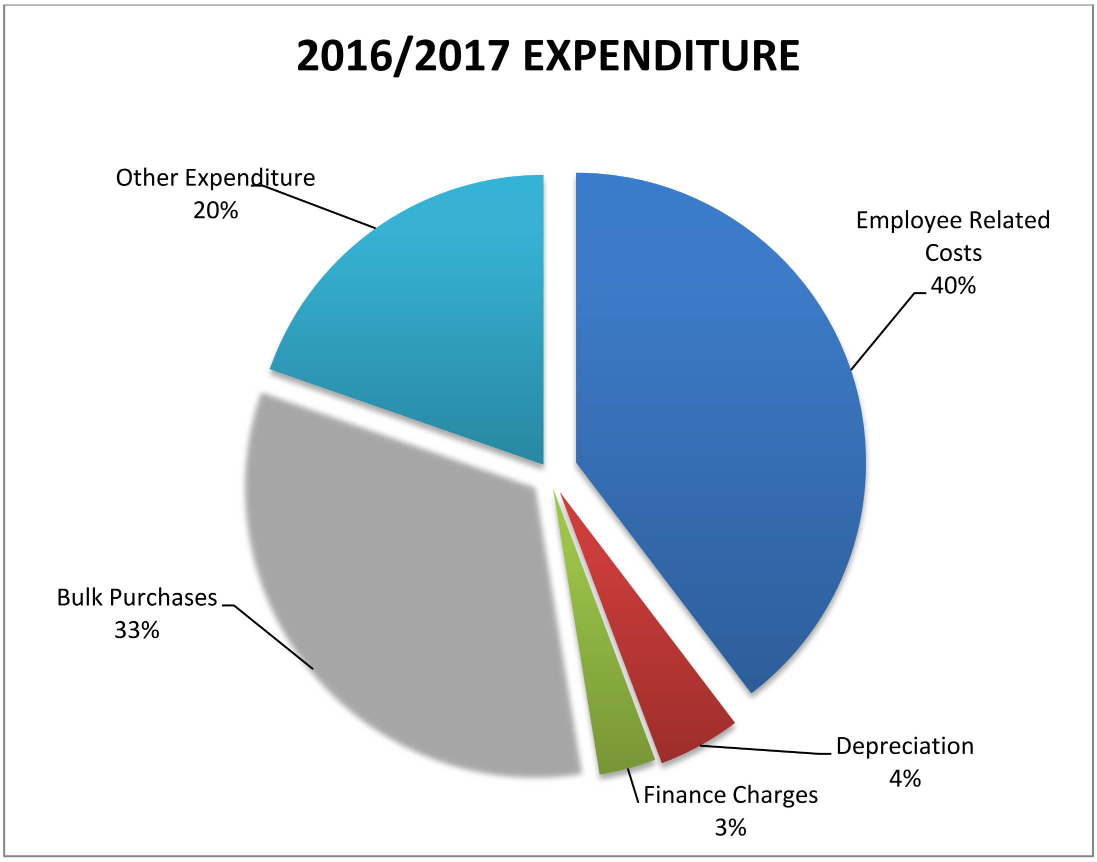
Overall budget growth was limited to **8.3%** resulting in annual operating revenue increasing from **R254 584 million in 2015/2016 to R275 761 million in 2016/2017.** Taking cognisance of the economic conditions, the resultant low employment levels and levels of disposable income, it was important to keep services affordable by critically looking at the costs

associated with providing the service and the effect on future service charges to provide the services.

Accordingly leadership and management investigated potential pitfalls and amongst others found that spiralling expenditure on employee costs did not keep trend with realistically anticipated revenue streams, compounded by the decline in electricity surpluses as a result of higher input costs to provide the service and main services that were rendered in the past at a loss.

A municipality have access to very limited revenue sources and therefore keeping a tight grip on staff costs and preventing wastage were of the key drivers to ensure an affordable, realistic and credible budget and we therefore tried to consolidate the fiscas.





CAPITAL BUDGET

Objective	2016/2017 (R '000)	2017/2018 (R '000)	2018/2019 (R '000)
Infrastructure assets	23 895	23 661	26 676
Community assets	1 357	2 093	-
Intangible assets	-	-	-
Other Assets	1 825	1 321	1 334
Total	**27 078**	**27 075**	**28 010**

Infrastructure assets	2016/2017 (R '000)	2017/2018 (R '000)	2018/2019 (R '000)
Road Transport	12 523	12 333	14 856
Electricity	3 247	2 530	3 560
Water	325	8 799	4 100

Sanitation	7 470	-	4 160
Other	330	-	-
Total	**23 895**	**23 661**	**26 676**

The projected funding of the capital budget is as follows: (R ‘000)

Source of funding	**2016/2017 (R ‘000)**	**2017/2018 (R ‘000)**	**2018/2019 (R ‘000)**
National Government	23 337	24 229	25 766
Provincial Government	366	-	-
Own Funding	**3 375**	**2 846**	**2 244**
Total	**27 078**	**27 075**	**28 010**

Tariff increases are inevitable given the cost of services and input costs, but more importantly to ensure that main services are cost reflective and that the main services are delivered on a sustainable basis as envisaged by the Constitution of SA and therefore the proposed main average tariff adjustments were modelled and calculated as follows:

Property tax rates Refer to page 1 of the tariff listing

Refuse removal 9%

Sewerage 6.60%

Water units 6.60%

Electricity units 7.86% - as per NT and envisaged NERSA approval

Other Sundry Tariffs/Charges: **As per tariff listing**

Rates

In the 2016/2017 financial year, the Property Taxes will be adjusted downwards in relation to the new general valuation that will come in effect 1st of July 2016. Rates rebates to senior citizens and disabled persons are also available as per the requirements/criteria of the amended Property Rates Policy, to qualifying ratepayers.

Electricity

According to NERSA, the inclining block rate tariff structure is commonly used to charge for electricity usage. The feature of this tariff structure is that the more you use, the higher the average price. The objective of the inclining block tariff is to provide protection for lower usage customers against high price increases resulting in a reduction in tariffs to these customers. This means that higher consumption customers will see increasingly punitive charges based on their electricity usage. The municipality is implementing the directive from NERSA as part of the Municipality's Licensing Agreement and as a result had to deal with the negative impact of a declining Electricity surplus, year-on year, putting more pressure on the level and quality of services provided.

Council's attention is further drawn to the fact that the proposed electricity tariff is at 7.86% whereas the increase in electricity bulk purchases for the 2016/2017 financial year is 9.4% as approved by NERSA (National Electricity Regulator of South Africa) for implementation by all municipalities.

Water

Taking cognizance of the plight of the poor and the affordability of basic services, indigents use the first 10 000 litres for free. The average tariff increase for the rest of the consumptive water scales are free for usage up to 60 000 litres per month and 6.6% from 61 000 litres. The tariff is designed to cater for future investment in basic water infrastructure, the need to generate surpluses over the medium term and in the main to accommodate the communicated 6.25% increase in bulk purchases.

The Western Cape is currently in drought. Dam levels are falling. Clanwilliam dam is down to slit level. The drought is drying up municipal water supplies. Expect water outages. If every stringent measure to reduce demand for water is not met the municipality will have no alternative but to come up with outages as a means to stem demand. Drought tariffs of 20% above current tariffs will be implemented in times of drought and low dam levels. One good way to stem demand for water is to lower the pressure of municipal supply.

Sewerage (Sanitation)

The proposed increase in this tariff is 6.6% for all categories of consumers. This tariff increase is necessitated due to operational requirements, maintenance of existing aging infrastructure, new infrastructure financing/provision and to ensure that the service is delivered in a sustainable manner.

Refuse Removal (Solid Waste)

The solid waste tariffs were modelled to give effect to the principle of the service charge being cost reflective as the service cannot be cross-subsidized. It is proposed that the tariff increase across the board by 9% as a result of the before-mentioned. The increase above CPI is necessitated to deliver the services in a sustainable manner given the complexity of the service requirement and geographical size of the area.

Debt Management

The municipality is currently executing all credit control and debt collection procedures as required in the Credit Control and Debt Collection policy approved in May 2014. These internal procedures followed include the disconnection of services, where there are services that can be disconnected, the issuing of final notices, the conclusion of reasonable agreements where the settlement of the accounts are not possible and also the follow up on defaulting debtors not honouring arrangements.

A further constraint on the already tight resource envelope is the ability of all consumers to pay for services rendered as the high unemployment rate and effects of slow economic growth are felt throughout the community of the Greater Matzikama Area. The situation requires extraordinary effort from local government practitioners and politicians in guiding strategic decision-making and managing our limited resources smarter and investigating and expanding on other financial resources. By strict enforcement and execution of the credit control policy, together with an understanding of the prevailing economic climate, Council aims to maintain and improve payment rates of at least 94% to meet Council's financial and constitutional obligations.

A zero tolerance approach will be followed where consumers are able to pay for services, as this indirectly denies paying consumers the level and standard of service that they are entitled to. The latter includes non-payment of rentals, which will be dealt with by means of right-sizing and educational programs driven by the Public Participation and Housing Departments.

Whilst the MTREF 2016/2017-2018/2019 budget is cash backed over the MTREF, we realize the impact of capital expenditure on our future operational budgets. Hard work still lies ahead to put the municipality on a path of financial sustainability. This in the main will remain a challenge as a result of the incorporation of the DMA, the growth in working capital requirements since 2012/2013 (see table SA10, actual audited figures). Whilst considerable

effort was exercised to limit expenditure to the absolute essentials, it must be noted that further cuts in expenditure will affect the level and quality of service delivery.

The community should however prepare and plan for above inflation increases for at least electricity over the foreseeable future due to the fact that electricity capacity in South Africa is under severe constraints. This has the effect that income also grows beyond the inflationary targets. All other service charges will be limited to the upper limits/targets of the South African Reserve Bank.

CONCLUSION

Although the operating budget reflects a surplus of R 27 092 million, it is critical to take cognisance of the fact that the main contributor to this positive position, is the government transfers emanating from and to capital renewal and represents an accounting entry only.

The capital grants income/receipts is the funding source to finance capital expenditure and it already forms part of the total capital expenditure finance resources.

The following proposals are being made, with the input and support of Provincial Treasury, to improve the overall cash flow position of the municipality:

<u>ENSURING REVENUE STREAMS TO IMPROVE FINANCIAL POSITION:</u>

- The sale of non-strategic property
  - Consider selling municipal houses
  - The selling of erven, especially in Strandfontein and Vredendal-South
- The under-recovery of traffic income must receive strategic priority.
- The ongoing programme whereby consumer usage patterns are checked in a bid to identify tampering of both electricity and water meters. No reconnection of the supply may take place before the fine is settled in full. Electricity supply must immediately be disconnected at source.
- The review of the various property usage deviations as contained in the Rates Act must be scrutinised to ensure that the income from the various industries are maximized.
- **Debt collection should be enhanced**:
  - Ward Councillors should emphasize the importance of paying municipal accounts at every interaction with their constituency.

- Ward Committee members must be encouraged to go house to house to emphasize the importance of paying municipal accounts to the residents of the municipal area.

- The exercise involving the rental of all properties must be prioritised to ensure that they are market related, including the usage of sport facilities by the sport clubs.

ON-GOING COST SAVING MEASUREMENTS

- No hotel costs over the suggested tariff in the Travelling and Subsistence policy will be entertained by the Chief Financial Officer.
- Indigent households will be encouraged to report all water leaks, even on their side of the meter. Early action preventing water losses will result in a slowdown of bad debts.
- The monitoring of overtime against the vehicle reports must continue to ensure that only overtime actually worked is paid for.
- No overtime payments must be made to staff earning over the baseline salary as per legislation.
- Overtime payments to all staff members must only be approved in exceptional circumstances; staff should be encouraged to make use of the option to take the time off and stand-by must be regulated.
- Vehicle tracking reports should be scrutinised by the respective managers to ensure that abuse of vehicles are not taking place, municipal vehicles should not be seen at shops, doctors' offices or carting children to and from school. Any such action must be met with immediate disciplinary action and the public is encouraged to report such incidents for investigation and action.
- Annual tenders will be enforced to ensure economies of scale and value for money procurement inclusive of the rotation of suppliers. Fixed prices over contracts periods must be enforced and SLA's must make provision for and be performance driven and must include penalties for non or under performance.
- The detailed summaries of telephone expenditure per staff member currently being provided to the Directors are also provided to the Municipal Manager on a monthly basis to ensure management oversight responsibility, inclusive of enforcing the telephone policy to prevent abuse.
- The watering of open spaces and parks within the municipal area with potable water must be managed more effectively and efficiently.

Section 4 – Budget Tables

The following budget tables can be found in annexure A (Part 1, Section4)

Table A1 - Budget Summary

TableA2 -Budgeted Financial Performance (revenue and expenditure by standard classification

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 - Budgeted Financial Performance (revenue and expenditure)

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 - Budgeted Financial Position

Table A7 - Budgeted Cash Flows

Table A8 - Cash backed reserves/accumulated surplus reconciliation

Table A9 - Asset Management

Table A10 - Basic service delivery measurement

Supporting Tables SA1 –SA37

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Budget process overview

Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1)(b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council by way of a schedule setting out the key budget deadlines. This was compiled and approved by Council at the end of August 2015.

Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process was integrated with the IDP during the IDP revision mechanism. The outcome of the consultation upon the IDP revision is taken into consideration in the budgeting process.

Process for tabling of the budget before Council for consultation

A statutory period of consultation preceded the tabling of the budget before Council on 29 March 2016. Meetings with the local community were advertised in the local press to inform consultation processes.

The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

Process for approval of the budget

The budget must be finally approved by Council by 31 May.

Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and policies, shall be available at Council libraries and offices for perusal. It shall also be available on Council's website.

Advertisements informing the public about the availability of these documents and the schedules for the public hearings on the IDP and the Budget shall be published in all local papers and be put up at municipal offices and libraries.

Budget process 2016/2017

The budget process in Matzikama complies with the requirements of the MFMA.

A schedule of key deadlines was compiled for tabling before Council by the Mayor before the end of August 2015.

The proposed budget must be tabled before Council by the end of March 2016. This is followed by a period of consultation. After the consultation process, the Mayor needs to consider any representations and decide whether any amendments need to be made to the budget as envisaged by section 23 of the MFMA.

The final budget must be agreed upon by Council before the end of May 2016.

The Municipality's budget was once again drafted on a 3-year basis. It takes the National and Provincial 3-year allocations to the Municipality into account. It is therefore necessary to plan and budget on a 3-year basis in order to take account of resource restrictions as well as capacity restrictions in respect of service delivery. The MFMA requires that municipalities draft 3-year budgets to ensure more thorough financial planning and to make provision for seamless service delivery.

As was the case last year, however, both capital and operating revenue and expenditure figures in the outer years in the current uncertain economic climate are indicators of service needs and not actual figures.

The municipality shall set out measurable performance objectives to link the financial inputs of the budget with service delivery on the ground. This shall be done in the form of quarterly service targets and monthly financial targets contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed upon by the Mayor within 28 days after agreement on the final budget and forms the basis for the Municipality's monitoring and management tool during the next year.

Section 6 - Overview of alignment of annual budget with IDP

See supporting table SA4 – 6

Section 7 – Measurable performance objectives and indicators

See supporting table SA7

Section 8 – Overview of budget-related policies

The below-mentioned policies are included in this budget documentation – please note that most of the policies are in Afrikaans as the majority of the community speaks only Afrikaans:

- **Credit Control and Debt Collection Policy-Kredietbeheer en Skuldinvorderingsbeleid**
- **Municipal property rates policy – Eiendomsbelastingbeleid**
- **Funding and reserve policy**
- **Supply Chain Management Policy and Policy relating to infrastructure investments and capital projects – Batebestuursbeleid**
- **Cash management and investment policy – Kontant Bestuurs en Beleggings Beleid**
- **Borrowing policy – Ingesluit in Kontant Bestuurs en Beleggings Beleid**
- **Policy relating to disposal and management of assets – addressed partly by the Supply Chain Management Policy and the Batebestuursbeleid**
- **Indigent Policy**
- **Tariff policy – including electricity, water, sanitation and refuse removal/Solid waste**
- **Policy relating to long term financial planning – included in the Cash Management and Investment Policy**
- **Reis en Verblyf Beleid**
- **Virement Policy**
- **Budget Implementation and Monitoring Policy**

Section 9 – Overview of budget assumptions

Budget assumptions

Budgets are drafted in uncertain conditions. In order to develop credible and responsive budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

***External Factors*:**

There is no real growth in the municipal area, and the only growth in the number of households relate to the building of RDP housing and the servicing of erven for those on the housing backlog waiting list which does not add to the revenue or tax base.

Job opportunities are limited as a result of limited or no growth, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist in this by implementing labour-intensive projects within municipality's financial resource envelope.

The inflationary indexes made available by National Treasury could not be used in our instance as the impact of increases in petroleum, water costs, personnel costs and electricity costs to the municipality should not be underestimated and cannot necessarily be controlled by the municipality.

Funding compliance

The budget will be fully cash-backed based on the premise of the current debtors' collection rate and that same does not deteriorate and in this regard the worst case scenario was used in the preparation of the budget. The budget is considered credible as various revenue enhancing strategies were investigated and the municipality embarked on a process to source experts to attend to revenue losses in the 2015/2016 financial year which will continue into the new financial year.

Section 10 – Overview of budget funding

Funding of the Budget

Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected;
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, **but only for the capital budget** referred to in Section 17.

Compliance with this requirement effectively requires that Council 'balances' its budget by ensuring that the budgeted outflow balances with a combination of planned inflow.

A Credible Budget

A credible budget, among other things, is a budget, which:

- Only funds activities which are in line with the revised IDP and vice versa and which ensures that the IDP is realistically achievable while taking account of the financial restrictions of the municipality;
- Is achievable in respect of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are in line with current and previous audited performance outcomes and that are supported by documented evidence of future assumptions;
- Does not compromise the financial viability of the municipality (ensures that the financial position is contained within generally accepted prudent limits and that obligations can be met in the short, medium and long term); and
- Provides managers with suitable levels of delegation to enable them to fulfil their financial managerial responsibilities.

A budget sets out certain service delivery levels and accompanying financial implications. Consequently the community must realistically expect to receive these promised service levels and to understand the accompanying financial implications. High under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and realistic.

Furthermore, budgets tabled as early as 90 days before the start of the budget year, must remain credible and fairly close to the final approved budget.

Selling of assets

The Municipality is revising its land and asset ownership as part of its longer term financial strategy. The sale of land is therefore continuously being investigated in order to improve the cash position of the municipality. Whilst the selling of property can never be a sustainable way of funding a municipality, cognisance must be taken of the tax base of this municipality and the multiplier effect of low cost housing needs, further compounded by the incorporation of the DMA's

Taking up Loans

The MFMA stipulates the conditions within which municipalities may incur short or long term debt.

The Act stipulates that short term debt may be used to meet immediate cash flow needs, but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or refinancing of existing long term debt. It is however the intention of this council to not take-up further loans in the next year due to the capacity of the municipality to service further capital debt and the sustainability of servicing same.

Section 11 – Expenditure on grant allocations and grant programs

See Supporting table SA18

Section 12 – Grants and allocations made by the Municipality

Any allocations made to an external body must comply with the requirements of Section 67 of the MFMA. This provides that before any funds may be transferred to an external organisation, the Municipal Manager as accounting officer must be satisfied that the organisation or body has the capacity to fulfil the agreement and has sufficient financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no discretionary funds may be appropriated in the budget seeing as such funds are not transparent during the consultation process.

Section 13 – Councillor and board member allowances and employee benefits

See Supporting Table SA22 and SA23

Section 14- Monthly targets for revenue, expenditure and cash flow

See Supporting Table SA25-SA30

Section 15 – Service Delivery and Budget Implementation plan

To be submitted as per the requirements of the MFMA Section 69(3) 'The accounting officer must no later than 14 days after the annual budget is submitted to the Mayor submit the service delivery and budget implementation plan for the year.' The administration has in this regard gone the extra mile to table a draft top layer SDBIP with the draft budget.

Section 16 – Contracts having future budgetary implications

See supporting table SA33

Section 17 – Capital expenditure details

See supporting table SA36 for detail capital budget.

Section 18 – Legislative compliance status

Municipal Financial Management Act –No 56 of 2003

The MFMA took effect on 1 July 2004. The act modernises budget and financial management practices within the overall aim of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finances, including budget, supply chain management and financial reporting.

The various sections of the Act are being phased in according to the designated financial management capacity of municipalities. Matzikama municipality has been designated as a medium-capacity municipality.

The MFMA forms the basis of the municipal management reforms implemented by municipalities.

The MFMA and the budget

The following explains the budget process in terms of the requirements of the MFMA. It is based on National Treasury's manual on the MFMA.

The budget drafting process

The Mayor must direct the budget drafting process by means of a co-ordinated cycle of events commencing at least ten months before the start of each financial year.

Overview

The MFMA requires a Council to adopt a three-year capital and operating budget taking into account and aligning with the municipality's current and future development priorities and other finance-related policy (for example relating to the provision of free basic services).

These budgets must clearly set out the revenue per source and expenditure per vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any details on loans, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may only be funded from reasonable estimates of revenue and cash-backed surplus funds of the previous year and loans (the latter for capital items only).

Budget drafting time schedule

The first step in the budget drafting process is to develop a time schedule of all key deadlines relating to the budget and to revise the Municipality's IDP and budget-related policy.

The budget drafting time schedule is compiled by senior management and tabled by the mayor for adoption by Council by 31 August (ten months before the start of the next budget year).

Drafting of the budget and revision of the IDP and policy

The Mayor must co-ordinate the budget drafting process and the revision of Council's IDP and budget-related policy with the assistance of the municipal manager.

The Mayor must ensure that the IDP overview constitutes an integral part of the budgeting process and that any changes to strategic priorities as contained in the IDP document are based on realistic projections of revenue and expenditure. In developing the budget, management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other applicable agreements or Acts of Parliament. The Mayor must consult the relevant District Council and all other local municipalities in that district as well as the applicable provincial treasury and the national treasury in drafting the budget, and must upon request provide certain information to National Treasury and other government departments.

The drafting process should ideally take place between August and November in order that draft consolidated three-year budget proposals, IDP amendments and policy could be made available during December and January. This allows time in January, February and March for preliminary consultation and discussion of the draft budget.

Tabling of the draft budget

By 31 March, the mayor must submit the draft budget to Council for public release.

Publication of the draft budget

After submission to Council, the Municipal Manager must disclose the relevant budget documentation and submit it to the National Treasury and the relevant provincial treasury and any other state department as required. At this stage, the local community must be invited to make representations on the contents of the budget.

Opportunity to comment on draft budget

After submission of the draft budget, Council must consider the opinions of the local community, National Treasury and the relevant provincial treasury and other municipalities and state departments who submitted representations on the budget.

Opportunity for revision of draft budget

After considering all opinions and representations, Council must allow the Mayor the opportunity to react to the representations received and, if necessary, to revise the budget and submit amendments for Council's consideration.

After tabling of the draft budget at the end of March, the months of April and May must be used to accommodate public and government comments and make any revisions that may be necessary. This could assume the form of public hearings, Council debates, formal or informal delegations to National Treasury, provincial treasury and other municipalities, or any other consulting forums designed to address the priorities of interested parties.

Adoption of the annual budget

Thereafter, Council must consider the approval and adoption of the budget by 31 May. This offers Council a 30-day window period to review the budget several times before final approval.

Should a Council fail to approve its budget during the first meeting, the budget, or an amended copy thereof, must be reconsidered within seven days and so on until it is eventually approved - before 1 July.

As soon as the budget is approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must submit a draft SDBIP and draft annual performance agreement for all pertinent senior personnel to the Mayor for approval within fourteen days after approval of the budget (no later than 14 July).

A SDBIP is a detailed plan for implementation of the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days after approval of the annual budget (no later than 28 June).

This plan must then be monitored by the Mayor and it must be regularly reported on to Council.

Managing the implementation process

The municipal manager is responsible for implementing the budget and must take steps to ensure that all expenditure occurs according to the budget and that revenue and expenditure is properly monitored.

Deviation from budget estimates

In general, Council may only incur expenditure if it is in accordance with the budget, within the limits of the amounts appropriated for each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside these parameters may be regarded as unauthorised, or in some cases irregular and fruitless or wasteful. Unauthorised expenditure must be reported and could result in criminal prosecution.

Review of budget estimates – the adjustments budget

It may on occasion be necessary for Council to consider a revision of its original budget due to material and considerable changes in revenue collections, expenditure patterns, or forecasts thereof for the remaining part of the financial year.

In such cases, a municipality may adopt an adjustments budget drafted by the municipal manager, submitted to the Mayor for consideration and tabled before Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in rates and tariffs and it must contain relevant justifications and supporting material when it is approved by Council.

Requirements of the MFMA in respect of the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget must be in the prescribed format and sets out what is to be included in that format. In MFMA circular 48, National Treasury offers detailed guidance on the contents of budget documentation and the supporting schedules. Matzikama Municipality has done its utmost to comply with the circular.

The table below shows how Matzikama Municipality complies with the disclosure requirements of Section 17 of the MFMA.

Requirement	**Disclosure in budget documentation**
Schedule of reasonably expected revenue for the budget year from each source of revenue	SECTION 4
Schedule indicating expenditure appropriations for the budget year under the various votes of the Municipality	SECTION 4
Schedule setting out the indicative revenue per revenue source and projected expenditure per vote for the two financial years following on the Budget year	SECTION 4
Draft resolutions - (i) approval of the budget of the Municipality (ii) instituting any municipal rates and fixing any municipal tariffs as may be required for the budget year and (iii) Approval of any other matters that may be prescribed.	Section 2
Measurable performance objectives for revenue for each source and for each budget vote, taking account of the Municipality's Integrated	Section 7

Development Plan.	
Proposed amendment to the Municipality's integrated development plan after the annual review of the IDP in terms of Section 34 of the Municipal Systems Act	
Any prescribed information on municipal entities under the exclusive or shared control of the Municipality	N.A.
Details of all prescribed new municipal entities that the Municipality wishes to establish or which the Municipality wishes to participate in	N.A.
Details of any proposed service delivery agreements, including material amendments to existing service delivery agreements	
Details of any proposed grants or allocations by the municipality to - (i) other municipalities (ii) any municipal entities and other external mechanisms that assist the municipality in performing its functions or powers (iii) any other state organs (iv) any organisations or bodies referred to in Section 67 (1) (bodies outside die Government)	Section 12
The proposed cost to the municipality for the budget year of the salaries, allowances and benefits of - (i) each political office-bearer of the Municipality (ii) councillors of the municipality (iii) the municipal manager, the chief financial office, any senior manager of the municipality and any other official of the municipality with a remuneration package greater or equal to that of a senior manager	Section 13
The proposed cost in the budget year for a municipal entity under the exclusive or shared control of the Municipality for the salaries, allowances and benefits of - (i) each member of the entity's board and (ii) the chief executive officer and each senior manager of the entity	N.A.

Other Legislations

In addition to the MFMA, the following legislation also impacts on the Municipal budget;

The Division of Revenue Act, 2014 and Provincial Budget announcements

Three-year national allocation to local government is published annually according to municipality in the Distribution of Revenue Act. The Act imposes duties on municipalities additional to the requirements of the MFMA, specifically regarding reporting obligations.

Allocations to the Municipality from Provincial Government are announced in the Provincial budget and published.

Section 18 of the MFMA provides that annual budgets may only be funded from reasonably expected revenue to be collected. The provision in the budget for allocation of National and Provincial government must include the allocations announced in the DORA or the applicable Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act are closely linked with that of the MFMA. In particular, the following requirements must be considered in the budget process;

- Chapters 4 and 5 relate to community participation and the requirements for the Integrated Development Plan process.
- Performance management that links with the requirement for the budget to contain measurable performance indicators and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirements of producing a tariff policy.

Section 19 – Quality Certification by Municipal Manager

I, J Pekeur, Acting Municipal Manager of Matzikama Municipality, hereby declares that the annual draft budget and supporting documentation have been drafted in accordance with the Municipal Financial Management Act and the regulations issued under this act, and that the annual budget and supporting documentation are aligned with the Integrated Development Plan of the Municipality.

J Pekeur

Acting Municipal Manager

Signature ....

Date: 17/5/2016